

**THE PUBLIC SERVICE COMMISSION  
OF SOUTH CAROLINA**

**DOCKET NO. 2017-292-WS**

In the Matter of	)	
	)	<b>REBUTTAL TESTIMONY</b>
Application of Carolina Water Service,	)	
Inc. for an Adjustment of Rates and	)	<b>OF</b>
Charges and Modifications to Certain	)	
Terms and Conditions for the Provision of	)	<b>ROBERT M. HUNTER</b>
Water and Sewer Service	)	

**Q. WHICH OF THE ORS's PROPOSED ADJUSTMENTS IS THE COMPANY  
CONTESTING IN THIS CASE?**

**A. The Company is contesting the following adjustments proposed by the Office of  
Regulatory Staff (ORS) in Audit Exhibit ZJP-5:**

- (9c) To increase maintenance and repair for deferred purchased water expenses.
- (9d) To decrease maintenance and repair to normalize sludge hauling expense due to consent orders with DHEC.
- (16) To amortize current and unamortized prior rate case expenses over a three-year period.
- (32c) To adjust pro-forma general ledger additions, pro-forma plant, and pro-forma retirements.
- (32d) To adjust for the removal of DHEC Consent Order (CO) Engineering.
- (40) To adjust miscellaneous revenues for ORS's recalculation of the Company's proposed rate increase.

1 CWS either agrees with the remaining adjustments or has decided not to contest them in  
2 this case. I will explain the company's position regarding contested adjustments 9c and 16, and  
3 the remaining adjustments will be discussed by Company Witnesses Cartin and Gilroy.

4 **Q. PLEASE EXPLAIN HOW CWS' APPLICATION IS AFFECTED BY ITS**  
5 **DECISION NOT TO CONTEST SOME OF ORS' ADJUSTMENTS?**

6 **A.** The Company's Application requested \$2,312,034 and \$2,284,616 increases for water  
7 and sewer revenues respectively, \$4,596,650 in total. Attached "Hunter – Exhibit A" calculates  
8 that after the adjustments proposed by ORS the resulting increase in revenues would be  
9 \$1,124,206 and \$1,197,469 for water and sewer respectively, \$2,321,675 in total. That is a  
10 decrease of \$2,274,975 or approximately 49% of the amount requested. Of that \$2,274,975  
11 decrease, \$876,640 is related to the change in Corporate Income Tax rate from 35% to 21%.  
12 Additionally, ORS' ROE recommendation accounts for a \$550,433 reduction. Thus, \$1,427,073,  
13 or approximately 63%, of the total \$2,274,975 reduction is related to those two items.

14 After CWS' adjustments the resulting increase in revenues is \$1,076,375 and \$1,343,886  
15 for water and sewer respectively, \$2,420,261 in total as seen in "Hunter - Exhibit B". Therefore,  
16 CWS' requested revenue will have been reduced by \$2,176,388.

17 **Q. WHAT ARE THE AMOUNTS OF THE ADJUSTMENTS OVER WHICH THE**  
18 **COMPANY DISAGREES WITH ORS?**

19 **A.** The Company is contesting items that impact Miscellaneous Revenues, O&M and Rate  
20 Base. The below charts display the adjustments being contested by the Company and the  
21 difference between ORS' and CWS' proposed amounts for each adjustment:  
22  
23

**Chart: Contested Miscellaneous Revenue and O&M Adjustments**

Revenue/O&M Adjustments	ORS Proposed Adjustment	CWS Proposed Adjustment	Impact to CWS Request
(9d) - Sludge Hauling Expense	\$ (96,892)	\$ -	\$ (96,892)
(40) - Late Fees - Misc. Revenues	\$ 35,576	\$ -	\$ (35,576)
(9c) - Purchased Water Deferral Balance	\$ 191,034	\$ 223,269	\$ (32,235)
(16) - I-20 Legal Cost Amortization	\$ -	\$ 14,979	\$ (14,979)
(16) - Updated Rate Case Expense	\$ (229,366)	\$ (215,715)	\$ (13,651)

**Chart: Contested Rate Base Adjustments**

Rate Base Adjustments	ORS Proposed Adjustment	CWS Proposed Adjustment	Impact to CWS Request
(32c) - Friarsgate EQ Liner Pro-Forma	\$ -	\$ 1,081,375	\$ (1,081,375)
(32d) - DHEC CO Engineering	\$ (306,552)	\$ -	\$ (306,552)

**Q. PLEASE RESPOND TO ORS' PROPOSAL TO ADJUST MAINTENANCE AND REPAIR FOR DEFERRED PURCHASED WATER EXPENSES. (PAYNE PAGE 8, LINE 1-ADJUSTMENT 9C).**

**A.** The Company agrees with ORS' treatment of deferred purchased water expenses, however, CWS believes that the balance used to amortize over three years should reflect the most updated information. ORS used a \$573,101 total deferral balance as of January 10, 2018. The Company proposes using a \$669,808 total deferral balance as of March 8, 2018. The deferral of purchased water expenses has benefitted our customers by eliminating confusing monthly water rate adjustments while keeping rates low between rate cases. Permitting CWS to recover its current deferred balance as of March 8, 2018 will tend to put downward pressure on the need for future rate relief.

**Q. HAS ORS INCLUDED ALL RECOVERABLE RATE CASE EXPENSES IN ITS PROPOSAL? (PAYNE PAGE 11, LINE 3-ADJUSTMENT 16).**

1 A. No, ORS stated the current rate case expense is \$47,546, however, the updated current rate  
2 case expense as of March 19, 2018 is \$88,500. The Commission customarily authorizes recovery  
3 of audited rate case expenses incurred through the hearing. As in past cases, CWS will update  
4 these expenses at the conclusion of the hearing and make them available to ORS for audit and  
5 report to the Commission.

6 **Q. ORS DISCUSSES ADJUSTMENTS IN FEDERAL INCOME TAXES**  
7 **RESULTING FROM THE FEDERAL CORPORATE TAX CUT. CAN YOU**  
8 **ELABORATE ON THE IMPACT OF THE TAX CUT AND JOBS ACT ON THE**  
9 **COMPANY'S RATES? (PAYNE PAGE 15, LINE 10-ADJUSTMENT 27).**

10 A. CWS filed the Application prior to enactment of the Tax Cut and Jobs Act ("the Act"),  
11 therefore, the impact of the Act was not included in the filing. Among other things, the Act reduced  
12 the corporate income tax rate by 14% from 35% to 21%, which reduces income tax expense. The  
13 impact for the change in corporate income tax rate is included in the adjustments proposed by  
14 ORS.

15 The Act also reduces the cost of service to customers due to the amortization of the  
16 excess Accumulated Deferred Income Taxes ("ADIT"). When the tax rate is lowered, a portion  
17 of the ADIT will never be paid to the federal government and excess deferred taxes are created.  
18 Excess deferred taxes mean the utility charged consumers at a higher tax rate in the early years  
19 than the tax actually paid by the utility in the future. Because the excess ADIT will not be paid to  
20 the federal government, it should be held in a regulatory liability account until it is determined  
21 whether a refund to the ratepayers is appropriate. The Company has been working with external  
22 tax and accounting professionals to determine the appropriate regulatory liability and adjustment  
23 to ADIT. At this time, CWS estimates that the regulatory liability amount is \$3,229,909, which

1 consists of \$2,978,710 and \$251,199 for the protected and unprotected balances respectively.  
2 The creation of this regulatory liability is offset by the reduction to the ADIT in rate base,  
3 therefore the impact is rate base neutral. The protected portion of the regulatory liability will be  
4 amortized over the life of the asset which the Company has calculated at 56 years using the  
5 weighted average life of CWS' protected assets. CWS proposes the unprotected portion be  
6 amortized over 3 years since these assets typically have a shorter useful life such as rate case  
7 expenses and deferred maintenance. The Company has adjusted Federal Income Taxes by  
8 \$136,924, the estimated annual amortization amount of the regulatory liability at this time, plus  
9 tax gross-up for a \$183,361 total revenue requirement reduction to account for the amount that  
10 will benefit customers.

11 Because of the new tax laws, it is the Company's understanding at this time that CWS is  
12 no longer excluded from paying taxes on Contributions in Aid of Construction ("CIAC"). CWS  
13 will seek to collect from the Developer federal and state taxes on CIAC donated to CWS;  
14 however, there may be circumstances in which such taxes may not be collected for CIAC  
15 contributed early in 2018 because the applicable Development Agreements did not contemplate  
16 payment of these taxes. Any CIAC (including tap fees) donated by the Developer will now need  
17 to be grossed up for federal and state taxes.

18 **Q. HOW DOES CWS INTEND TO GROSS-UP CIAC?**

19 **A.** The Company will gross-up cash service availability charges and property contributions in  
20 aid of construction in order to recover the federal and state corporate income taxes associated with  
21 those contributions. The formulae to be used to gross-up cash service availability charges and  
22 contributed property are as follows:  
23

$$\text{CIAC TAX IMPACT} = R / 1.0 - R \times (F + P)$$

**R** = Applicable marginal rate of Federal and State Corporate Income Tax if one is payable on the value of contributions which must be included in taxable income of the utility.

**R** shall be determined as follows:

$$R = ST + FT (1 - ST)$$

**ST** = Applicable marginal rate of State Corporate Income Tax

**FT** = Applicable marginal rate of Federal Income Tax, either corporate or individual.

**F** = Dollar Amount of charges paid to a utility as contributions in aid of construction which must be included in taxable income of the utility, and which had been excluded in taxable income pursuant to Section 118(b) of the Internal Revenue Code.

**P** = Dollar amount of property conveyed to utility which must be included in taxable income of the utility, and, which had been excluded from taxable income pursuant to Section 118(b) of the Internal Revenue Code.

Using the 5.00% South Carolina State tax rate and 21.00% Federal tax rate would result in \$33.24 in taxes to be paid for every \$100.00 of CIAC. CWS' Connection Fee is \$300.00 per SFE and the Impact Fee is \$400.00 per SFE. Thus, the impact of Tax Cut and Jobs Act of 2017 on CIAC will require payment of \$232.68 per SFE at the time of connection. CWS believes that this cost should be borne by the customer responsible for the cost. CWS proposes to require its customers who connect to its water and sewer system to pay these costs in addition to the Connection Fee and Impact Fee.

**Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

**A.** Yes.

	Per Books	Pro Forma Adjustments	Pro Forma Present	Proposed Increase	Pro Forma Proposed
<b>Operating Revenues</b>					
Service Revenues - Water	\$ 10,351,801	\$ 445,276 [a]	\$ 10,797,077 [a]	\$ 1,124,206 [k]	\$ 11,921,282 [k]
Service Revenues - Sewer	10,602,605	(1,660,950) [a]	8,941,655 [a]	1,197,469 [k]	10,139,125 [k]
Miscellaneous Revenues	474,882	17,441 [q]	492,323 [q]	35,576 [l]	527,899 [l]
Uncollectible Accounts	(309,649)	15,394 [b]	(294,255) [b]	(53,292) [l]	(347,547) [l]
<b>Total Operating Revenues</b>	<b>\$ 21,119,639</b>	<b>\$ (1,182,839)</b>	<b>\$ 19,936,800</b>	<b>\$ 2,303,959</b>	<b>\$ 22,240,759</b>
<b>Maintenance Expenses</b>					
Salaries and Wages	\$ 2,565,425	\$ 134,298 [c]	\$ 2,699,723 [c]	\$ -	\$ 2,699,723 [c]
Capitalized Time	(525,777)	(15,911) [q]	(541,688) [q]	-	(541,688) [q]
Purchased Power	895,192	(75,032) [q]	820,160 [q]	-	820,160 [q]
Purchased Sewer & Water - Pass Through	3,313,015	644,900 [p]	3,927,915 [p]	-	3,927,915 [p]
Maintenance and Repair	2,232,236	(32,474) [q]	2,199,762 [q]	-	2,199,762 [q]
Maintenance Testing	265,450	(8,831) [q]	256,619 [q]	-	256,619 [q]
Meter Reading	110,205	(25) [q]	110,180 [q]	-	110,180 [q]
Chemicals	487,720	(87,780) [q]	399,940 [q]	-	399,940 [q]
Transportation	206,630	(1,065) [m]	205,565 [m]	-	205,565 [m]
Operating Exp. Charged to Plant	-	-	-	-	-
<b>Total</b>	<b>\$ 9,550,095</b>	<b>\$ 528,080</b>	<b>\$ 10,078,175</b>	<b>\$ -</b>	<b>\$ 10,078,175</b>
<b>General Expenses</b>					
Salaries and Wages	\$ 700,280	\$ (72,820) [c]	\$ 627,460 [c]	\$ -	\$ 627,460 [c]
Office Supplies & Other Office Exp.	416,692	(112,584) [j]	304,108 [j]	-	304,108 [j]
Regulatory Commission Exp.	318,145	(229,367) [q]	88,778 [q]	-	88,778 [q]
Pension & Other Benefits	763,625	55,633 [c]	819,258 [c]	-	819,258 [c]
Rent	25,580	(178) [q]	25,402 [q]	-	25,402 [q]
Insurance	312,962	(20,955) [q]	292,007 [q]	-	292,007 [q]
Office Utilities	599,990	(59,574) [q]	540,417 [q]	-	540,417 [q]
Outside Services - Other	281,034	(8,435) [q]	272,599 [q]	-	272,599 [q]
Non-Utility Misc Income	-	-	-	-	-
Miscellaneous	34,173	(114,681) [q]	(80,508) [q]	-	(80,508) [q]
<b>Total</b>	<b>\$ 3,452,482</b>	<b>\$ (562,961)</b>	<b>\$ 2,889,521</b>	<b>\$ -</b>	<b>\$ 2,889,521</b>
<b>Depreciation</b>					
Amortization of CIAC	\$ 1,717,514	\$ (83,079) [e]	\$ 1,634,435 [e]	\$ -	\$ 1,634,435 [e]
Taxes Other Than Income	(416,355)	10,505 [q]	(405,850) [q]	-	(405,850) [q]
Income Taxes - Federal	2,925,145	101,851 [f]	3,026,996 [f]	12,170 [f]	3,039,166 [f]
Income Taxes - State	1,074,691	(870,404) [g]	204,287 [g]	457,211 [g]	661,498 [g]
Sale of Utility Property	177,733	(126,533) [g]	51,200 [g]	114,589 [g]	165,789 [g]
Amort. Investment Tax Credit	(29,323)	29,323 [o]	- [o]	-	- [o]
Amort. of PAA	(8,853)	-	(8,853) [h]	-	(8,853) [h]
	(17,128)	1,756	(15,373) [h]	-	(15,373) [h]
<b>Total</b>	<b>\$ 5,423,424</b>	<b>\$ (936,581)</b>	<b>\$ 4,486,843</b>	<b>\$ 583,970</b>	<b>\$ 5,070,813</b>
<b>Total Operating Expenses</b>	<b>\$ 18,426,002</b>	<b>\$ (971,462)</b>	<b>\$ 17,454,540</b>	<b>\$ 583,970</b>	<b>\$ 18,038,510</b>
<b>Net Operating Income</b>	<b>\$ 2,693,638</b>	<b>\$ (211,377)</b>	<b>\$ 2,482,260</b>	<b>\$ 1,719,989</b>	<b>\$ 4,202,249</b>
Interest During Construction	\$ (89,608)	\$ 89,608 [h]	- [h]	\$ -	\$ -
Customer Growth	\$ -	\$ (24,285) [i]	\$ (24,285) [i]	\$ (37,984)	\$ (62,269)
Interest on Debt	1,752,211	(38,456) [i]	1,713,755 [i]	-	1,713,755 [i]
<b>Net Income</b>	<b>\$ 1,031,034</b>	<b>\$ (238,244)</b>	<b>\$ 792,790</b>	<b>\$ 1,757,973</b>	<b>\$ 2,550,763</b>

	Per Books	Pro Forma Adjustments	Pro Forma Present	Proposed Increase	Pro Forma Proposed
<b>Operating Revenues</b>					
Service Revenues - Water	\$ 10,351,801	\$ 445,276	\$ 10,797,077	\$ 1,124,206 [k]	\$ 11,921,282
Service Revenues - Sewer	-	-	-	-	-
Miscellaneous Revenues	165,872	63,891	229,763	13,882	243,645
Uncollectible Accounts	(172,434)	(6,474)	(178,908)	(45,592) [l]	(224,500)
<b>Total Operating Revenues</b>	<b>\$ 10,345,239</b>	<b>\$ 502,693</b>	<b>\$ 10,847,932</b>	<b>\$ 1,092,496</b>	<b>\$ 11,940,427</b>
<b>Maintenance Expenses</b>					
Salaries and Wages	\$ 1,340,213	\$ 246,592	\$ 1,586,805	\$ -	\$ 1,586,805
Capitalized Time	(273,922)	(37,732)	(311,654)	-	(311,654)
Purchased Power	272,514	-	272,514	-	272,514
Purchased Water - Pass Through	2,282,828	614,940	2,897,768	-	2,897,768
Maintenance and Repair	631,558	199,134	830,692	-	830,692
Maintenance Testing	139,081	-	139,081	-	139,081
Meter Reading	71,797	-	71,797	-	71,797
Chemicals	216,553	-	216,553	-	216,553
Transportation	109,878	(556)	109,322	-	109,322
Operating Exp. Charged to Plant	-	-	-	-	-
<b>Total</b>	<b>\$ 4,790,501</b>	<b>\$ 1,022,378</b>	<b>\$ 5,812,879</b>	<b>\$ -</b>	<b>\$ 5,812,879</b>
<b>General Expenses</b>					
Salaries and Wages	\$ 371,703	(8,973)	\$ 362,730	\$ -	\$ 362,730
Office Supplies & Other Office Exp.	212,299	(4,004)	208,294	-	208,294
Regulatory Commission Exp.	150,896	(103,059)	47,837	-	47,837
Pension & Other Benefits	405,332	67,091	472,423	-	472,423
Rent	23,104	-	23,104	-	23,104
Insurance	166,123	-	166,123	-	166,123
Office Utilities	343,826	-	343,826	-	343,826
Outside Services	145,223	-	145,223	-	145,223
Non-Utility Misc Income	-	-	-	-	-
Miscellaneous	18,128	(60,644)	(42,516)	-	(42,516)
<b>Total</b>	<b>\$ 1,836,632</b>	<b>\$ (109,589)</b>	<b>\$ 1,727,043</b>	<b>\$ -</b>	<b>\$ 1,727,043</b>
Depreciation	\$ 789,404	\$ 25,446	\$ 814,850	\$ -	\$ 814,850
Amortization of CIAC	(160,531)	(11,363)	(171,894)	-	(171,894)
Taxes Other Than Income	1,537,428	(83,667)	1,453,761	5,893	1,459,654
Income Taxes - Federal	638,577	(531,075)	87,502	216,777 [f]	304,279
Income Taxes - State	105,742	(83,811)	21,931	54,330 [g]	76,260
Sale of Utility Property	(35,279)	15,279	-	-	-
Amort. Investment Tax Credit	(3,746)	-	(3,746)	-	(3,746)
Amortization of PAA	(11,940)	341	(11,599)	-	(11,599)
<b>Total</b>	<b>\$ 2,879,655</b>	<b>\$ (688,850)</b>	<b>\$ 2,190,805</b>	<b>\$ 276,999</b>	<b>\$ 2,467,804</b>
<b>Total Operating Expenses</b>	<b>\$ 9,506,768</b>	<b>\$ 223,939</b>	<b>\$ 9,730,727</b>	<b>\$ 276,999</b>	<b>\$ 10,007,726</b>
<b>Net Operating Income</b>	<b>\$ 838,451</b>	<b>\$ 278,754</b>	<b>\$ 1,117,205</b>	<b>\$ 815,496</b>	<b>\$ 1,932,701</b>
Interest During Construction	\$ (38,531)	\$ 38,531	\$ -	\$ -	\$ -
Customer Growth	-	\$ (9,238)	\$ (9,238)	\$ (19,006)	\$ (28,244)
Interest on Debt	997,639	(209,606)	788,033	-	788,033
<b>Net Income</b>	<b>\$ (120,658)</b>	<b>\$ 459,667</b>	<b>\$ 338,410</b>	<b>\$ 834,502</b>	<b>\$ 1,172,912</b>



	Per Books	Pro Forma Adjustments	Pro Forma Present	Proposed Increase	Pro Forma Proposed
<b>Operating Revenues</b>					
Service Revenues - Water	\$ -	\$ -	\$ -	\$ -	\$ -
Service Revenues - Sewer	10,602,605	(1,660,950)	8,941,655	1,197,469 [k]	10,139,125
Miscellaneous Revenues	309,010	(46,450)	262,560	21,694	284,254
Uncollectible Accounts	(137,215)	21,868	(115,347)	(7,700) [l]	(123,047)
<b>Total Operating Revenues</b>	<b>\$ 10,774,400</b>	<b>\$ (1,685,532)</b>	<b>\$ 9,088,868</b>	<b>\$ 1,211,463</b>	<b>\$ 10,300,332</b>
<b>Maintenance Expenses</b>					
Salaries and Wages	\$ 1,225,212	\$ (112,294)	\$ 1,112,918	\$ -	\$ 1,112,918
Capitalized Time	(251,855)	21,821	(230,034)	-	(230,034)
Purchased Power	622,678	(75,032)	547,646	-	547,646
Purchased Sewer	1,030,187	(40)	1,030,147	-	1,030,147
Maintenance and Repair	1,600,678	(231,608)	1,369,070	-	1,369,070
Maintenance Testing	126,369	(8,831)	117,538	-	117,538
Meter Reading	38,408	(25)	38,383	-	38,383
Chemicals	271,166	(87,780)	183,386	-	183,386
Transportation	96,751	(509)	96,242	-	96,242
Operating Exp. Charged to Plant	-	-	-	-	-
<b>Total</b>	<b>\$ 4,759,595</b>	<b>\$ (494,298)</b>	<b>\$ 4,265,297</b>	<b>\$ -</b>	<b>\$ 4,265,297</b>
<b>General Expenses</b>					
Salaries and Wages	\$ 328,577	(63,847)	\$ 264,730	\$ -	\$ 264,730
Office Supplies & Other Office Exp.	204,394	(108,580)	95,814	-	95,814
Regulatory Commission Exp.	167,249	(126,308)	40,941	-	40,941
Pension & Other Benefits	358,293	(11,458)	346,835	-	346,835
Rent	2,476	(178)	2,298	-	2,298
Insurance	146,840	(20,955)	125,884	-	125,884
Office Utilities	256,165	(59,574)	196,591	-	196,591
Outside Services	135,811	(8,435)	127,376	-	127,376
Non-Utility Misc Income	-	-	-	-	-
Miscellaneous	16,045	(54,037)	(37,992)	-	(37,992)
<b>Total</b>	<b>\$ 1,615,850</b>	<b>\$ (453,372)</b>	<b>\$ 1,162,478</b>	<b>\$ -</b>	<b>\$ 1,162,478</b>
<b>Depreciation</b>					
Amortization of CIAC	\$ 928,110	\$ (108,525)	\$ 819,585	\$ -	\$ 819,585
Taxes Other Than Income	(255,824)	21,868	(233,956)	-	(233,956)
Income Taxes - Federal	1,387,717	185,518	1,573,235	6,277 [f]	1,579,512
Income Taxes - State	436,114	(319,329)	116,785	240,434 [g]	357,220
Sale of Utility Property	71,991	(42,722)	29,269	60,259 [g]	89,529
Amort. Investment Tax Credit	(14,044)	14,044	-	-	-
Amort. Investment Tax Credit	(5,107)	-	(5,107)	-	(5,107)
Amortization of PAA	(5,189)	1,415	(3,774)	-	(3,774)
<b>Total</b>	<b>\$ 2,543,769</b>	<b>\$ (247,731)</b>	<b>\$ 2,296,038</b>	<b>\$ 306,971</b>	<b>\$ 2,603,009</b>
<b>Total Operating Expenses</b>	<b>\$ 8,919,214</b>	<b>\$ (1,195,401)</b>	<b>\$ 7,723,813</b>	<b>\$ 306,971</b>	<b>\$ 8,030,783</b>
<b>Net Operating Income</b>	<b>\$ 1,855,187</b>	<b>\$ (490,131)</b>	<b>\$ 1,365,056</b>	<b>\$ 904,493</b>	<b>\$ 2,269,548</b>
Interest During Construction	\$ (51,077)	\$ 51,077 [h]	\$ -	\$ -	\$ -
Customer Growth	\$ -	\$ (15,047)	\$ (15,047)	\$ (18,978)	\$ (34,025)
Interest on Debt	754,572	171,150	925,722	-	925,722
<b>Net Income</b>	<b>\$ 1,151,692</b>	<b>\$ (697,311)</b>	<b>\$ 454,380</b>	<b>\$ 923,471</b>	<b>\$ 1,377,851</b>

Carolina Water Service, Inc. - Consolidated  
Explanation of Adjustments to Income Statement

Hunter - Exhibit A  
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- [a] Revenues are annualized to reflect year end customers at current rates.
- [b] Uncollectibles are adjusted at test year percentages for annualized revenues.
- [c] Salaries, wages and benefits are adjusted for annualization for employees working at or for Carolina Water Service, Inc., as of current. In addition, capitalized time has been adjusted to reflect current capitalized time rates for current employees.
- [d] Regulatory expense has been adjusted for the total estimated cost of this case and the unamortized portion of the prior case, amortized over three years. An adjustment to Regulatory Expense has been added to reflect the increase in cost due to amortization of legal costs deferred since prior case.
- [e] Depreciation and amortization are annualized at 1.5% on depreciable/amortizable assets/CIAC. Separate from these assets, depreciation has been calculated and included for computers, vehicles, and other allocated plant.
- [f] Taxes other than income are adjusted to annualize gross receipts, utility or commission taxes, and franchise taxes at present and proposed revenues. Taxes other than income also includes payroll taxes adjusted for the annualization of salaries.
- [g] Income taxes are computed on taxable income at current rates.
- [h] AFUDC is eliminated for rate making purposes.
- [i] Interest on debt has been computed using a 51.89%/48.11% equity/debt ratio and a 6.58% cost of debt.
- [j] Non-recoverable items have been removed.
- [k] Revenues are increased to reflect Carolina Water Service's requested incremental revenue adjustment.
- [l] Uncollectibles are adjusted at test year percentages for the requested incremental revenue adjustment.
- [m] Transportation expense has been adjusted to reflect the expense as allocated by driver.
- [n] Sale of Utility Property has been removed for ratemaking purposes.
- [o] Deferred Maintenance Expense has been adjusted to reflect current amortization costs. Adjustment made to include the annual amortization expense from the purchased water rate increase deferral asset approved in prior rate case.
- [p] Purchased Expense has been adjusted to reflect current expense. Increased expense due to rate increases from Providers has been deferred since last rate case, adjustment made to full invoiced amount.
- [q] Income Statement has been adjusted to reflect the removal of I-20 Waste-Water system from Carolina Water Service, Inc.

Operating Revenues	Per Books	Pro Forma Adjustments	Pro Forma Present	Proposed Increase	Pro Forma Proposed
Service Revenues - Water	\$ 10,351,801	\$ 445,276 [a]	\$ 10,797,077 [a]	\$ 1,076,375 [k]	\$ 11,873,452 [k]
Service Revenues - Sewer	10,602,605	(1,660,950) [a]	8,941,655 [a]	1,343,886 [k]	10,285,542 [k]
Miscellaneous Revenues	474,882	17,441 [g]	492,323 [g]	-	492,323
Uncollectible Accounts	(309,649)	15,394 [b]	(294,255) [b]	(53,292) [l]	(347,547)
Total Operating Revenues	\$ 21,119,639	\$ (1,182,839)	\$ 19,936,800	\$ 2,366,969	\$ 22,303,769
Maintenance Expenses					
Salaries and Wages	\$ 2,565,425	\$ 134,298 [c]	\$ 2,699,723 [c]	\$ -	\$ 2,699,723
Capitalized Time	(525,777)	(15,911) [c]	(541,688) [c]	-	(541,688)
Purchased Power	895,192	(75,032) [q]	820,160 [q]	-	820,160
Purchased Sewer & Water - Pass Through	3,313,015	614,900 [p]	3,927,915 [p]	-	3,927,915
Maintenance and Repair	2,232,236	96,653 [o]	2,328,889 [o]	-	2,328,889
Maintenance Testing	265,450	(8,831) [q]	256,619 [q]	-	256,619
Meter Reading	110,205	(25) [q]	110,180 [q]	-	110,180
Chemicals	487,720	(87,780) [q]	399,940 [q]	-	399,940
Transportation	206,630	(1,065) [m]	205,565 [m]	-	205,565
Operating Exp. Charged to Plant	-	-	-	-	-
Total	\$ 9,550,095	\$ 657,207	\$ 10,207,303	\$ -	\$ 10,207,303
General Expenses					
Salaries and Wages	\$ 700,280	\$ (72,820) [c]	\$ 627,460 [c]	\$ -	\$ 627,460
Office Supplies & Other Office Exp.	416,692	(112,584) [i]	304,108 [i]	-	304,108
Regulatory Commission Exp.	318,145	(200,736) [d]	117,409 [d]	-	117,409
Pension & Other Benefits	763,695	55,633 [c]	819,258 [c]	-	819,258
Rent	25,580	(178) [q]	25,402 [q]	-	25,402
Insurance	312,962	(20,955) [q]	292,007 [q]	-	292,007
Office Utilities	599,990	(59,574) [q]	540,417 [q]	-	540,417
Outside Services - Other	281,034	(8,435) [q]	272,599 [q]	-	272,599
Non-Utility Misc Income	-	-	-	-	-
Miscellaneous	34,173	(114,681) [q]	(80,508) [q]	-	(80,508)
Total	\$ 3,452,482	\$ (534,330)	\$ 2,918,152	\$ -	\$ 2,918,152
Depreciation	\$ 1,717,514	\$ (83,079) [e]	\$ 1,634,435 [e]	\$ -	\$ 1,634,435
Amortization of CIAC	(416,355)	10,505 [e]	(405,850) [e]	-	(405,850)
Taxes Other Than Income	2,925,145	101,851 [f]	3,026,996 [f]	12,686 [f]	3,039,683 [f]
Income Taxes - Federal	1,074,691	(870,404) [k]	204,287 [k]	301,312 [g]	505,599 [g]
Income Taxes - State	177,733	(126,533) [k]	51,200 [k]	109,826 [g]	161,026 [g]
Sale of Utility Property	(29,323)	29,323 [o]	- [o]	-	-
Amort. Investment Tax Credit	(8,853)	-	(8,853) [h]	-	(8,853)
Amortization of PAA	(17,128)	1,756	(15,373) [h]	-	(15,373)
Total	\$ 5,423,424	\$ (936,581)	\$ 4,486,843	\$ 423,824	\$ 4,910,667
Total Operating Expenses	\$ 18,426,002	\$ (813,704)	\$ 17,612,298	\$ 423,824	\$ 18,036,122
Net Operating Income	\$ 2,693,638	\$ (369,135)	\$ 2,324,502	\$ 1,943,146	\$ 4,267,648
Interest During Construction	\$ (89,608)	\$ 89,608 [h]	\$ - [h]	\$ -	\$ -
Customer Growth	-	\$ (24,285)	\$ (24,285) [i]	\$ (37,984)	\$ (62,269)
Interest on Debt	1,752,211	(38,456) [i]	1,713,755 [i]	-	1,713,755
Net Income	\$ 1,031,024	\$ (396,002)	\$ 635,032	\$ 1,981,130	\$ 2,616,162

	Per Books	Pro Forma Adjustments	Pro Forma Present	Proposed Increase	Pro Forma Proposed
<b>Operating Revenues</b>					
Service Revenues - Water	\$ 10,351,801	\$ 445,276	\$ 10,797,077	\$ 1,076,375	\$11,873,452
Service Revenues - Sewer	-	-	-	-	-
Miscellaneous Revenues	165,872	63,801	229,763	-	229,763
Uncollectible Accounts	(172,434)	(6,474)	(178,908)	(45,592)	(224,500)
<b>Total Operating Revenues</b>	<b>\$ 10,345,239</b>	<b>\$ 592,593</b>	<b>\$ 10,847,932</b>	<b>\$ 1,030,783</b>	<b>\$ 11,878,715</b>
<b>Maintenance Expenses</b>					
Salaries and Wages	\$ 1,340,213	\$ 246,592	\$ 1,586,805	\$ -	\$ 1,586,805
Capitalized Time	(273,922)	(37,732)	(311,654)	-	(311,654)
Purchased Power	272,534	-	272,534	-	272,534
Purchased Water - Pass Through	2,282,828	614,940	2,897,768	-	2,897,768
Maintenance and Repair	631,558	231,369	862,927	-	862,927
Maintenance Testing	139,081	-	139,081	-	139,081
Meter Reading	71,797	-	71,797	-	71,797
Chemicals	216,553	-	216,553	-	216,553
Transportation	109,878	(556)	109,322	-	109,322
Operating Exp. Charged to Plant	-	-	-	-	-
<b>Total</b>	<b>\$ 4,790,501</b>	<b>\$ 1,054,613</b>	<b>\$ 5,845,114</b>	<b>\$ -</b>	<b>\$ 5,845,114</b>
<b>General Expenses</b>					
Salaries and Wages	\$ 371,703	(8,973)	\$ 362,730	\$ -	\$ 362,730
Office Supplies & Other Office Exp.	212,299	(4,004)	208,294	-	208,294
Regulatory Commission Exp.	150,896	(95,662)	55,233	-	55,233
Pension & Other Benefits	405,332	67,091	472,423	-	472,423
Rent	23,104	-	23,104	-	23,104
Insurance	166,123	-	166,123	-	166,123
Office Utilities	343,826	-	343,826	-	343,826
Outside Services	145,223	-	145,223	-	145,223
Non-Utility Misc Income	-	-	-	-	-
Miscellaneous	18,128	(50,644)	(42,516)	-	(42,516)
<b>Total</b>	<b>\$ 1,836,632</b>	<b>\$ (102,192)</b>	<b>\$ 1,734,440</b>	<b>\$ -</b>	<b>\$ 1,734,440</b>
<b>Depreciation</b>					
Amortization of CIAC	\$ 789,404	\$ 25,446	\$ 814,850	\$ -	\$ 814,850
Taxes Other Than Income	(160,531)	(11,363)	(171,894)	-	(171,894)
Income Taxes - Federal	1,537,428	(83,667)	1,453,761	5,642	1,459,403
Income Taxes - State	638,577	(551,075)	87,502	120,735	208,237
Income Taxes - Local	105,742	(83,811)	21,931	49,275	71,206
Sale of Utility Property	(15,279)	15,279	-	-	-
Amort. Investment Tax Credit	(3,746)	-	(3,746)	-	(3,746)
Amortization of PAA	(11,940)	341	(11,599)	-	(11,599)
<b>Total</b>	<b>\$ 2,879,655</b>	<b>\$ (688,850)</b>	<b>\$ 2,190,805</b>	<b>\$ 175,652</b>	<b>\$ 2,366,457</b>
<b>Total Operating Expenses</b>	<b>\$ 9,506,788</b>	<b>\$ 263,571</b>	<b>\$ 9,770,359</b>	<b>\$ 175,652</b>	<b>\$ 9,946,011</b>
<b>Net Operating Income</b>	<b>\$ 838,451</b>	<b>\$ 239,122</b>	<b>\$ 1,077,573</b>	<b>\$ 855,131</b>	<b>\$ 1,932,704</b>
<b>Interest During Construction</b>					
Customer Growth	\$ (38,531)	\$ 38,531	\$ -	\$ -	\$ -
Interest on Debt	\$ -	\$ (9,238)	\$ (9,238)	\$ (19,006)	\$ (28,244)
	997,639	(209,606)	788,033	-	788,033
<b>Net Income</b>	<b>\$ (120,658)</b>	<b>\$ 419,436</b>	<b>\$ 298,778</b>	<b>\$ 874,137</b>	<b>\$ 1,172,915</b>

Operating Revenues		Per Books	Pro Forma Adjustments	Pro Forma Present	Proposed Increase	Pro Forma Proposed
Service Revenues - Water						
Service Revenues - Sewer		\$ 10,602,605	(1,660,950) [a] [q]	\$ 8,941,655	\$ 1,343,886 [k]	\$ 10,285,542
Miscellaneous Revenues		309,010	(46,450) [q]	262,560	-	262,560
Uncollectible Accounts		(137,215)	21,868 [b] [q]	(115,347)	(7,700) [l]	(123,047)
Total Operating Revenues		\$ 10,774,400	\$ (1,685,532)	\$ 9,088,868	\$ 1,336,186	\$ 10,425,055
Maintenance Expenses						
Salaries and Wages		\$ 1,225,212	\$ (112,294) [c] [q]	\$ 1,112,918	\$ -	\$ 1,112,918
Capitalized Time		(251,855)	21,821 [c] [q]	(230,034)	-	(230,034)
Purchased Power		622,678	(75,032) [q]	547,646	-	547,646
Purchased Sewer		1,030,187	(40) [p]	1,030,147	-	1,030,147
Maintenance and Repair		1,600,678	(134,716) [o] [q]	1,465,962	-	1,465,962
Maintenance Testing		126,369	(8,831) [q]	117,538	-	117,538
Meter Reading		38,408	(25) [q]	38,383	-	38,383
Chemicals		271,166	(87,780) [q]	183,386	-	183,386
Transportation		96,751	(509) [m] [q]	96,242	-	96,242
Operating Exp. Charged to Plant		-	-	-	-	-
Total		\$ 4,759,595	\$ (397,406)	\$ 4,362,189	\$ -	\$ 4,362,189
General Expenses						
Salaries and Wages		\$ 328,577	(63,847) [c] [q]	\$ 264,730	\$ -	\$ 264,730
Office Supplies & Other Office Exp.		204,394	(108,580) [l] [q]	95,814	-	95,814
Regulatory Commission Exp.		167,249	(105,074) [d] [q]	62,175	-	62,175
Pension & Other Benefits		358,293	(11,458) [c] [q]	346,835	-	346,835
Rent		2,476	(178) [q]	2,298	-	2,298
Insurance		146,840	(20,955) [q]	125,884	-	125,884
Office Utilities		256,165	(59,574) [q]	196,591	-	196,591
Outside Services		135,811	(8,435) [q]	127,376	-	127,376
Non-Utility Misc Income		-	-	-	-	-
Miscellaneous		16,045	(54,037) [q]	(37,992)	-	(37,992)
Total		\$ 1,615,850	\$ (432,137)	\$ 1,183,713	\$ -	\$ 1,183,713
Depreciation		\$ 928,110	\$ (108,525) [e] [q]	\$ 819,585	\$ -	\$ 819,585
Amortization of CIAC		(255,824)	21,868 [e] [q]	(233,956)	-	(233,956)
Taxes Other Than Income		1,387,717	185,518 [f] [q]	1,573,235	7,044 [f]	1,580,279
Income Taxes - Federal		436,114	(319,329) [g] [q]	116,785	180,577 [k]	297,362
Income Taxes - State		71,991	(42,722) [g] [q]	29,269	60,551 [g]	89,820
Sale of Utility Property		(14,044)	14,044 [o]	-	-	-
Amort. Investment Tax Credit		(5,107)	-	(5,107)	-	(5,107)
Amortization of PAA		(5,189)	1,415	(3,774)	-	(3,774)
Total		\$ 2,543,769	\$ (247,731)	\$ 2,296,038	\$ 248,172	\$ 2,544,210
Total Operating Expenses		\$ 8,919,214	\$ (1,077,274)	\$ 7,841,939	\$ 248,172	\$ 8,090,111
Net Operating Income		\$ 1,855,187	\$ (608,258)	\$ 1,246,929	\$ 1,088,014	\$ 2,334,944
Interest During Construction						
Customer Growth		\$ (51,077)	\$ 51,077 [h]	\$ -	\$ -	\$ -
Interest on Debt		\$ -	\$ (15,047)	\$ (15,047)	\$ (18,978)	\$ (34,025)
		754,572	171,150 [i] [q]	925,722	-	925,722
Net Income		\$ 1,151,692	\$ (815,438)	\$ 336,254	\$ 1,106,992	\$ 1,443,246

**Carolina Water Service, Inc. - Consolidated  
Explanation of Adjustments to Income Statement**

**Hunter - Exhibit B  
Page 4 of 4**

- [a] Revenues are annualized to reflect year end customers at current rates.
- [b] Uncollectibles are adjusted at test year percentages for annualized revenues.
- [c] Salaries, wages and benefits are adjusted for annualization for employees working at or for Carolina Water Service, Inc., as of current. In addition, capitalized time has been adjusted to reflect current capitalized time rates for current employees.
- [d] Regulatory expense has been adjusted for the total estimated cost of this case and the unamortized portion of the prior case, amortized over three years. An adjustment to Regulatory Expense has been added to reflect the increase in cost due to amortization of legal costs deferred since prior case.
- [e] Depreciation and amortization are annualized at 15% on depreciable/amortizable assets/CIAC. Separate from these assets, depreciation has been calculated and included for computers, vehicles, and other allocated plant.
- [f] Taxes other than income are adjusted to annualize gross receipts, utility or commission taxes, and franchise taxes at present and proposed revenues. Taxes other than income also includes payroll taxes adjusted for the annualization of salaries.
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- [q] Income Statement has been adjusted to reflect the removal of I-20 Waste-Water system from Carolina Water Service, Inc.